

**VIRGINIA STATE UNIVERSITY
PETERSBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of Virginia State University for the year ended June 30, 2000, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- an internal control matter that we consider a reportable condition; however we do not consider this a material weakness;
- an instance of noncompliance that is required to be reported; and
- the University has not completed corrective action of the prior audit finding entitled, "Improve System Efficiency and Financial Reporting." Adequate corrective action has been taken with respect to audit findings reported in the prior year that are not repeated in this report.

In the section of this report entitled, "Internal Control and Compliance Finding and Recommendations," we report that the University was unable to meet the required deadlines for promptly reconciling its Financial Records System to the state's central accounting system; therefore, we recommend that the University continue to improve its reconciliation process.

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORTS:

Report on Financial Statements

Report on Compliance and on Internal Control Over Financial Reporting

INTERNAL CONTROL AND COMPLIANCE FINDING
AND RECOMMENDATION

FINANCIAL STATEMENTS:

Balance Sheet

Statement of Changes in Fund Balances

Statement of Current Funds Revenues, Expenditures, and Other Changes

Notes To Financial Statements

SUPPLEMENTARY INFORMATION:

Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes
in Fund Balances

UNIVERSITY OFFICIALS

April 13, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia State University

We have audited the accounts and records of **Virginia State University** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia State University as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia State University as of June 30, 2000, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances" is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia State University as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior report.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, which is described in the section entitled, "Internal Control and Compliance Finding and Recommendation."

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled, "Internal Control and Compliance Finding and Recommendation."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described is not a material weakness.

Status of Prior Findings

The University has not completed adequate corrective action with respect to the previously reported finding, "Improve System Efficiency and Financial Reporting." Accordingly, we included this finding in the section entitled, "Internal Control and Compliance Finding and Recommendation." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 19, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva
kva:183

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Reconciliation Process and System Efficiency

The University did not meet the required monthly deadlines to reconcile its Financial Records System (FRS) to the state's central Commonwealth Accounting and Reporting System (CARS) during fiscal year 2000. State accounting policy requires that each agency reconcile its internal accounting records to the Commonwealth's official accounting records monthly and submit the results of the reconciliation to the Department of Accounts through an Exception Schedule within 30 days of the close of the month.

The University could not perform reconciliations promptly due to the inefficiency of their reconciliation process. As we reported in previous audits, this inefficiency is a result of a large number of reconciling items caused by an outdated CARS interface, timing, and other differences that staff cannot easily identify in FRS. In addition, voucher numbers created in the Accounts Payable module of FRS did not appear in the Financial Accounting module, making the expenditure reconciliation extremely difficult and labor intensive.

Complicating the reconciliations was a difference from the University's federal funds cash reconciliation from more than two years ago. This reconciling item was the result of the University spending state money for federal programs without promptly requesting reimbursement from the federal programs. The General Accounting section has posted a permanent adjustment, with which we concur, transferring state funds and resolving this federal funds deficiency. When reconciling items are not resolved promptly, each succeeding reconciliation becomes more difficult.

The Office of Information Technology (OIT) along with the General Accounting office changed FRS to allow the Accounts Payable Module to forward the voucher number to the Financial Accounting Module. This change was completed after the end of fiscal year 2000 and has somewhat improved the efficiency of identifying reconciling items.

In February 2001, OIT and the General Accounting office began using an automated reconciliation of FRS to CARS. Currently, General Accounting uses the automated reconciliation only to perform the expenditures reconciliation. The University is correcting deficiencies with the outdated FRS/CARS interface and plans to have a new interface in use by July 2001.

We recommend that OIT, along with General Accounting personnel, continue to improve the reconciliation process to decrease the time spent reconciling. Improvements must include management oversight that ensures that all reconciling items are resolved promptly. OIT should also continue efforts to fully implement the new automated reconciliation process, correct the FRS/CARS interface, and develop manual procedures that promptly identify and resolve all timing and other differences. As these processes and automated systems are fully developed and staff gain experience in their use, the efficiency of the reconciliations will continue to improve.

VIRGINIA STATE UNIVERSITY
BALANCE SHEET
As of June 30, 2000

	Current Funds			Endowment and Similar Funds
	Unrestricted	Restricted	Loan Funds	Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 6,309,406	\$ 1,644,867	\$ 313,946	\$ 17,000
Investments held with the Treasurer of VA (Note 3)	460,446	-	-	-
Cash and investments with Trustees (Note 3)	2,899,487	604,550	-	4,621,325
Appropriations available	-	308,978	-	-
Interest receivable	20,174	5,080	-	2,685
Accounts and loans receivable (Net of allowance for doubtful accounts \$1,309,139) (Note 4)	717,416	2,582,383	601,050	-
Due from other funds (Note 5)	580,900	19,024	-	21,372
Inventories	261,862	16,767	-	-
Prepaid expenses	763,480	-	-	-
Investment in plant (Note 4)	-	-	-	-
Other assets	4,069	-	-	-
Total assets	\$ 12,017,240	\$ 5,181,649	\$ 914,996	\$ 4,662,382
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,520,849	\$ 710,653	\$ 13,618	\$ -
Retainage payable (Note 6)	-	-	-	-
Deposits pending distribution	21,827	445	-	-
Advance from the Treasurer of Virginia	13,009	-	-	-
Due to other funds (Note 5)	117,017	579,838	-	-
Deferred revenue	743,034	2,278,597	-	-
Interest payable	-	-	-	-
Bond payable (Note 7)	-	-	-	-
Notes payable (Note 7)	-	-	-	-
Capital lease obligation (Note 7)	-	-	-	-
Installment purchases (Note 7)	-	-	-	-
Accrued compensated absences	2,032,081	565,376	-	-
Obligations under Securities Lending Program (Note 3)	460,446	-	-	-
Other liabilities	2,218	1,716	-	-
Total liabilities	6,910,481	4,136,625	13,618	-
Fund balances:				
Unrestricted (Note 8)	5,106,759	-	-	-
Restricted	-	1,045,024	-	-
U.S. Government grant refundable	-	-	585,821	-
University funds - Restricted	-	-	315,557	-
Endowment	-	-	-	2,508,062
Quasi-Endowment - Unrestricted	-	-	-	361,610
Quasi-Endowment - Restricted	-	-	-	1,792,710
Unexpended	-	-	-	-
Renewals and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Net investment in plant	-	-	-	-
Total fund balances	5,106,759	1,045,024	901,378	4,662,382
Total liabilities and fund balances	\$ 12,017,240	\$ 5,181,649	\$ 914,996	\$ 4,662,382

The accompanying Notes to Financial Statements are an integral part of this statement.

Plant Funds					
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds	Total
\$ 23,997	\$ 2,057,550	\$ -	\$ -	\$ 916,121	\$ 11,282,887
-	934,114	-	-	-	1,394,560
-	-	-	-	-	8,125,362
12,513	17,810,462	-	-	-	18,131,953
-	-	-	-	-	27,939
-	-	-	-	3,797	3,904,646
-	-	76,621	-	-	697,917
-	-	-	-	-	278,629
-	-	19,379	-	-	782,859
-	-	-	139,069,258	-	139,069,258
-	-	60,023	-	-	64,092
\$ 36,510	\$ 20,802,126	\$ 156,023	\$ 139,069,258	\$ 919,918	\$ 183,760,102

\$ -	\$ 619,427	\$ -	\$ -	\$ -	\$ 4,864,547
-	217,595	-	-	-	217,595
-	-	-	-	-	22,272
-	-	-	-	-	13,009
-	1,062	-	-	-	697,917
-	-	-	-	-	3,021,631
-	-	76,621	-	-	76,621
-	9,883	38,517	8,830,117	-	8,878,517
-	-	-	2,818,317	-	2,818,317
-	-	-	1,320,677	-	1,320,677
-	-	-	265,531	-	265,531
-	-	-	-	-	2,597,457
-	-	-	-	-	460,446
888	1,119	-	-	919,918	925,859
888	849,086	115,138	13,234,642	919,918	26,180,396
-	-	-	-	-	5,106,759
-	-	-	-	-	1,045,024
-	-	-	-	-	585,821
-	-	-	-	-	315,557
-	-	-	-	-	2,508,062
-	-	-	-	-	361,610
-	-	-	-	-	1,792,710
35,622	-	-	-	-	35,622
-	19,953,040	-	-	-	19,953,040
-	-	40,885	-	-	40,885
-	-	-	125,834,616	-	125,834,616
35,622	19,953,040	40,885	125,834,616	-	157,579,706
\$ 36,510	\$ 20,802,126	\$ 156,023	\$ 139,069,258	\$ 919,918	\$ 183,760,102

VIRGINIA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
Revenues and other additions:				
Unrestricted current funds revenues	\$ 55,305,905	\$ -	\$ -	\$ -
State appropriation revenue (Note 9)	-	2,605,093	-	-
Federal grants and contracts-restricted (Note 10)	-	28,783,494	-	-
State grants and contracts-restricted	-	803,028	-	-
Local grants and contracts-restricted	-	31,045	-	-
Private gifts, grants and contracts	-	299,224	5,000	175,154
Investment income	-	949	10,182	561,178
Endowment income	-	22,804	-	21,665
Interest on loans receivable	-	-	54,384	-
Expended for plant facilities (including \$3,138,167 charged to current funds)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Realized gain on sale of investments	-	3,184	-	-
Other sources	-	4,770	14,173	-
Total revenues and other additions	55,305,905	32,553,591	83,739	757,997
Expenditures and other deductions:				
Educational and general expenditures	37,386,623	32,867,009	-	-
Auxiliary enterprise expenditures	14,164,460	192,560	-	-
Indirect costs recovered	-	230,645	-	-
Loan cancellations and write-offs	-	-	18,506	-
Administrative and collection costs	-	-	35,618	-
Expended for plant facilities (including non-capitalized expenditures of \$1,733,589)	-	-	-	-
Retirement of plant facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Other	-	-	190,449	-
Total expenditures and other deductions	51,551,083	33,290,214	244,573	-
Transfers among funds - additions (deductions):				
Operating transfers to primary government	(25,101)	-	-	-
Mandatory debt service and other	(1,529,366)	-	-	-
Nonmandatory	(1,084,521)	518,280	-	(481,120)
Total transfers	(2,638,988)	518,280	-	(481,120)
Net increase (decrease) for the year	1,115,834	(218,343)	(160,834)	276,877
Fund balances, July 1, 1999	3,990,925	1,263,367	1,062,212	4,385,505
Fund balances, June 30, 2000	\$ 5,106,759	\$ 1,045,024	\$ 901,378	\$ 4,662,382

Plant Funds				
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
\$ -	\$ -	\$ -	\$ -	\$ 55,305,905
-	14,192,059	566,888	-	17,364,040
-	55,477	-	-	28,838,971
-	-	-	-	803,028
-	153,000	-	-	184,045
-	50,000	-	-	529,378
-	51,739	-	-	624,048
-	-	-	-	44,469
-	-	-	-	54,384
-	-	-	6,412,208	6,412,208
-	-	-	1,461,542	1,461,542
-	-	-	-	3,184
-	306,284	-	-	325,227
-	14,808,559	566,888	7,873,750	111,950,429
-	-	-	-	70,253,632
-	-	-	-	14,357,020
-	-	-	-	230,645
-	-	-	-	18,506
-	-	-	-	35,618
800	5,006,830	-	-	5,007,630
-	-	-	109,817	109,817
-	-	1,461,542	-	1,461,542
-	-	637,240	-	637,240
-	-	-	83,582	274,031
800	5,006,830	2,098,782	193,399	92,385,681
-	-	-	-	(25,101)
-	-	1,529,366	-	-
(256)	1,047,617	-	-	-
(256)	1,047,617	1,529,366	-	(25,101)
(1,056)	10,849,346	(2,528)	7,680,351	19,539,647
36,678	9,103,694	43,413	118,154,265	138,040,059
\$ 35,622	\$ 19,953,040	\$ 40,885	\$ 125,834,616	\$ 157,579,706

VIRGINIA STATE UNIVERSITY
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2000

	Unrestricted	Restricted	Total
Revenues:			
Student tuition and fees	\$ 13,154,512	\$ -	\$ 13,154,512
State appropriation revenue (Note 9)	23,696,250	2,605,093	26,301,343
Federal government grants and contracts	230,645	29,250,835	29,481,480
State government grants and contracts	-	841,665	841,665
Local grants and contracts	-	31,045	31,045
Private gifts, grants and contracts	239,374	299,224	538,598
Sales and services of auxiliary enterprises	17,234,071	-	17,234,071
Sales and services of educational departments	10,033	-	10,033
Endowment income	51,292	22,804	74,096
Investment income	202,261	4,133	206,394
Other sources	487,467	4,770	492,237
Total current revenues	55,305,905	33,059,569	88,365,474
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	14,994,722	375,786	15,370,508
Research	374,249	3,167,573	3,541,822
Public service	1,320,330	3,116,894	4,437,224
Academic support	2,911,347	677,012	3,588,359
Student service	2,603,011	707,394	3,310,405
Institutional support	6,481,888	718,131	7,200,019
Operation and maintenance of plant	8,405,618	488,110	8,893,728
Scholarships and fellowships	295,458	23,616,109	23,911,567
Educational and general expenditures	37,386,623	32,867,009	70,253,632
Mandatory transfer for debt service	164,744	-	164,744
Total educational and general	37,551,367	32,867,009	70,418,376
Auxiliary enterprises:			
Operating expenditures	14,164,460	192,560	14,357,020
Mandatory transfer for debt service	1,364,622	-	1,364,622
Total auxiliary enterprises	15,529,082	192,560	15,721,642
Operating transfers to primary government	25,101	-	25,101
Total expenditures and mandatory transfers	53,105,550	33,059,569	86,165,119
Other transfers and additions/(deductions):			
Excess (deficit) of restricted receipts over transfer to revenue	-	(736,623)	(736,623)
Nonmandatory transfers	(1,084,521)	518,280	(566,241)
Total additions/(deductions)	(1,084,521)	(218,343)	(1,302,864)
Net increase (decrease) in fund balance	\$ 1,115,834	\$ (218,343)	\$ 897,491

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Virginia State University, founded in 1882, is one of two land grant universities in the state, having been so designated in 1920. As a land grant institution, the University engages in natural resources-related research projects and agricultural extension services. The institution attained university status in 1979. The University offers instructional programs at the graduate and undergraduate levels in science, education, humanities, social science, and business. The University's stated mission is to prepare students to advance intellectually, socially, economically, and politically, so they and the University will make significant contributions to the enhancement of society.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. Since the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

B. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for the activities or objectives specified. Separate accounts are maintained for each fund. Funds having similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the Board of Visitors. Externally-restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, of which the governing board retains full control to use in achieve any of its institutional purposes.

Unrestricted revenue is accounted for in the Current Unrestricted fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Revenues from current restricted funds are recognized when expenditures are incurred for current operating purposes.

Endowment and similar funds record the usage of income from moneys subject to the restrictions of gift instruments requiring, in perpetuity, that the principal be invested and income only be utilized. Certain funds within this classification differ from regular endowments in that any portion of the funds may be expended at the discretion of the Board of Visitors.

C. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis, except for depreciation expenses relating to capitalized fixed assets, which are not recorded. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

D. Investments

Investments are recorded at fair market value at June 30, 2000.

E. Plant Funds

Plant assets consisting of land, building, improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Library books are valued at replacement cost as determined by the State Council of Higher Education. Equipment expenditures are capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. No provision is made in the accounts for depreciation of plant assets. Current funds used to finance plant assets are accounted for as expenditures for the normal replacement of movable equipment and library books; mandatory transfers for required provisions for debt service; and transfers of a non-mandatory nature for all other cases.

F. Inventory

Inventory is valued at the lower of cost or market. The inventory held by the University consists of supplies held for consumption.

G. Deferred Revenue

Deferred revenue represents moneys received, but not earned as of June 30, 2000. In the Current Unrestricted Fund, deferred revenue represents student tuition and fees received in advance of the academic term. In the Current Restricted Fund, deferred revenue represents federal funds received, but not spent.

H. Accrued Compensated Absences

The amount of leave earned, but not taken by University employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 2000, all unused vacation leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

2. AFFILIATED ORGANIZATION

The Virginia State University Foundation is separately incorporated and managed by its own Board. Assets and liabilities of the Foundation are not included in these statements. The Foundation was organized for fund raising activities, which support the University.

The following is a condensed summary of the financial position of the Foundation as of June 30, 2000. This information is not audited.

ASSETS

Cash and other assets	\$ 713,355
Other receivables	6,133
Investments	<u>3,242,129</u>
Total assets	<u>\$ 3,961,617</u>

LIABILITIES AND NET ASSETS

Liabilities	\$ 42,172
Net assets	<u>3,919,445</u>
Total liabilities and net assets	<u>\$ 3,961,617</u>

3. CASH AND INVESTMENTS

All state funds of the University are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is included in "Cash and cash equivalents" on the balance sheet and is not categorized as to credit risk. Cash deposits held by the University are maintained in accounts covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 2000, the carrying amount of cash was \$8,883,771.

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2000. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the University, or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or its trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or

unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name. The University held no assets in either risk category 2 or 3 at June 30, 2000.

The composition and categorization of investments held by the University at June 30, 2000, is as follows:

<u>Description</u>	<u>Category 1</u>	<u>Market value</u>	<u>Cost</u>
Investment:			
U.S. government securities	\$1,739,024	\$1,739,024	\$1,772,334
Corporate stocks	<u>6,031,400</u>	<u>6,031,400</u>	<u>2,470,991</u>
Subtotal	<u>\$7,770,424</u>	7,770,424	4,243,325
Money market funds		354,938	354,938
State non-arbitrage program		<u>934,114</u>	<u>934,114</u>
Total investments		<u>\$9,059,476</u>	<u>\$5,532,377</u>
Money market funds - Cash equivalents		<u>\$2,399,116</u>	<u>\$2,399,116</u>

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling \$460,446 received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

4. BALANCE SHEET DETAIL

Accounts Receivable

Unrestricted current funds:

Student and other receivables (less allowance of \$182,624) \$ 717,416

Restricted current funds:

Grants and contracts and other receivables 2,582,383

Loan funds:

Notes receivable (less allowance of \$1,126,515) 601,050

Agency funds:

Accounts receivable 3,797

Total receivables \$3,904,646

Investment in Plant

Land	\$ 267,084
Improvements	10,241,537
Buildings	85,462,407
Equipment	20,303,417
Library books	12,657,186
Construction in progress	<u>10,137,627</u>
Total investment in plant	<u><u>\$139,069,258</u></u>

5. DUE TO/FROM OTHER FUNDS

Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained. Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered.

RECEIVABLE FUND	PAYABLE FUND			
	Unrestricted	Restricted	Plant	Totals
Unrestricted	\$ -	\$579,838	\$1,062	\$580,900
Restricted	19,024	-	-	19,024
Endowment	21,372	-	-	21,372
Plant	<u>76,621</u>	<u>-</u>	<u>-</u>	<u>76,621</u>
Total	<u><u>\$117,017</u></u>	<u><u>\$579,838</u></u>	<u><u>\$1,062</u></u>	<u><u>\$697,917</u></u>

6. RETAINAGE PAYABLE

At June 30, 2000, \$217,595 was held by Virginia State University as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

7. LONG-TERM INDEBTEDNESS

Long-Term Indebtedness at June 30, 2000, consists of the following:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>Total</u>
General Obligation Revenue Bonds:			
Langston Hall Project, Series 1995	4.60-5.10%	2010	\$ 1,935,000
Foster Hall Project, Series 1995	4.60-5.10%	2010	1,735,000
Dorm Renovation Project, Series 1995	4.60-5.10%	2010	2,020,000
Jones Dining Hall Project, Series 1996	5.375%	2016	2,185,000
Jones Dining Hall Project, Series 1998	4.67%	2018	<u>965,000</u>
Total bonds payable			<u><u>\$8,840,000</u></u>

A summary of future principal requirements of long-term debt as of June 30, 2000, follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2001	\$ 585,000
2002	610,000
2003	645,000
2004	670,000
2005	705,000
Later years	<u>5,625,000</u>
Total principal payments	8,840,000
Add: Unamortized premium	<u>38,517</u>
Total	<u>\$ 8,878,517</u>

Loan From Department of Housing and Urban Development (HUD)

The University entered into a loan agreement with HUD in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. At June 30, 2000, the outstanding balance of the loan was \$2,818,317.

A summary of future principal and interest requirements as of June 30, 2000, follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 93,016	\$ 83,857	\$ 176,873
2002	95,828	81,046	176,874
2003	98,373	78,149	176,522
2004	101,708	76,165	177,873
2005	84,702	72,291	156,993
Later years	<u>2,344,690</u>	<u>652,509</u>	<u>2,997,199</u>
	<u>\$2,818,317</u>	<u>\$1,044,017</u>	<u>\$3,862,334</u>

Higher Education Equipment Trust Fund Capital Lease Obligation

The University is committed under capital lease agreements with the Virginia College Building Authority (VCBA) in the combined principal amount of \$1,320,677. The agreements, entered in 1994, 1995, 1996, and 1997, will mature in fiscal years 2001, 2002, and 2003, respectively with interest rates ranging from 3.50 percent to 5.35 percent. Under the terms of the leases, the University is authorized to purchase equipment from an approved list of equipment in an amount not to exceed the principal amount of each lease. Payment of such purchases are to be reimbursed to the University or directly paid by the VCBA from the VCBA Equipment Trust Fund, which is financed from the proceeds of bonds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund

of the Commonwealth amounts sufficient to repay principal and interest requirements under the lease agreements.

A summary of future principal and interest requirements as of June 30, 2000, follows:

Year ending <u>June 30,</u>	Equipment Trust Capital <u>Lease Obligations</u>
2001	\$ 631,936
2002	544,940
2003	<u>248,507</u>
Total principal and interest	1,425,383
Less: Interest	<u>104,706</u>
Total	<u><u>\$1,320,677</u></u>

Installment Purchases

The University has entered into installment purchase contracts to finance the acquisition of copiers and a mainframe computer. The length of the purchase agreements is for three years, and the interest rate ranges from 4.0 to 5.1 percent. Principal and interest payments of these commitments for fiscal years subsequent to June 30, 2000, are as follows:

Year ending <u>June 30,</u>	Installment Purchase <u>Obligations</u>
2001	\$222,096
2002	<u>50,831</u>
Total principal and interest	272,927
Less: Interest	<u>7,396</u>
Total	<u><u>\$265,531</u></u>

Additionally, in July 2000, the University entered into a five-year master lease agreement with IBM Corporation to provide financing of lighting equipment for Rogers Stadium Athletic Complex at Virginia State University. The financing is in the amount of \$190,800 with 60 monthly payments of \$3,666 at an interest rate of 5.75 percent.

8. FUND BALANCES- CURRENT FUNDS- UNRESTRICTED

As of June 30, 2000, unrestricted fund balances totaling \$3,264,905 have been designated by the Board of Visitors for plant replacement, expansion, and improvement. In addition, \$318,001 is a required reserve for the Housing and Urban Development loan.

9. STATE APPROPRIATIONS- CURRENT FUNDS- UNRESTRICTED

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of state appropriations received by the University for the year ended June 30, 2000.

	<u>Current Unrestricted</u>
Original Appropriation	\$23,203,510
Adjustments:	
Central account distribution	208,900
Reappropriation	739,041
Reversion to the General Fund of the Commonwealth	<u>(455,201)</u>
Adjusted Appropriations	<u>\$23,696,250</u>

10. DIRECT STUDENT LOAN PROGRAM

On July 1, 1995, the University entered the Federal Direct Student Loan Program. This program replaces the Federal Stafford and PLUS Loan Programs, which involve a private lender/bank or a guarantee agency. Under the Federal Direct Student Loan Program, students borrow directly from the federal government with the University acting as the processing and delivery point of the funds. At June 30, 2000, federal grants and contract revenue and expenditures for scholarships and fellowships included \$14,282,957 related to this program.

11. OPERATING LEASES

The University is committed under operating leases for equipment and building space. In most cases, the University expects that in the normal course of business, similar leases will replace these leases. Rental expense for the fiscal year ended June 30, 2000, was \$482,790. The University has, as of June 30, 2000, the following total future minimum rental payments:

<u>Year</u>	<u>Amount</u>
2001	\$339,429
2002	21,244
2003	<u>518</u>
Total	<u>\$361,191</u>

12. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Employees of the University are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to

these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not Virginia State University, has overall responsibility for contributions to these plans.

Full-time faculty and certain administrative staff participate in optional retirement plans. These retirement annuity programs are through TIAA/CREF, VALIC, Fidelity Investment Insurance Companies, and T. Rowe Price, rather than VRS. These are fixed-contribution programs where the retirement benefits received are based upon the employer's 5.4 percent and employee's five percent contributions, all of which are paid by the University, plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to the programs were calculated using a base salary amount of \$4,623,471. Total pension costs under these plans were approximately \$480,841 for the year ended June 30, 2000.

13. STATE STUDENT LOANS

The University makes loans to qualified students from its Commonwealth of Virginia Student Loan Fund. At June 30, 2000, the cash balance of the State Student Loan Fund was \$53,342.

14. CONTINGENT LIABILITIES

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with various regulations issued by the Office of Management and Budget. Failure to comply with these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2000, the University estimates that no material liabilities will result from such audits or questions.

The University has been a defendant in several legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

15. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts, theft, or damage to and destruction of assets, errors and omissions, non-performance of duty, injuries to employees, and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Personnel and Training and the risk management insurance plans are administered by the Department of General Services, Division of Risk Management. Risk management insurance includes worker's compensation, property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and water craft plans. The University pays premiums to each of these

Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA STATE UNIVERSITY
STATEMENT OF AUXILIARY ENTERPRISES REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

	Food Services	Bookstore	Residential Facilities	Parking and Transportation	Tele- Communication
Revenues:					
Student fees	\$ 4,424,521	\$ -	\$ 6,058,900	\$ -	\$ -
Sales and services	30,766	180,631	145,076	307,031	105,951
Interest revenue	-	-	-	-	-
Rental fees	-	-	5,824	-	-
Total revenues	4,455,287	180,631	6,209,800	307,031	105,951
Operating expenditures:					
Personal services	-	-	627,858	68,302	75,505
Employee benefits	-	-	160,497	23,828	17,791
Contractual services	2,809,508	7,391	1,109,926	(7,768)	(31,364)
Supplies and materials	15,931	-	76,992	(15,466)	1,293
Equipment	65,168	168	417,542	86	19,285
Current charges and obligations	8,026	-	331,922	7,460	720
Scholarships	5,294	-	461,542	-	-
Indirect cost	675,546	1,770	732,603	17,082	21,910
Miscellaneous	144	-	-	6,288	-
Total operating expenditures	3,579,617	9,329	3,918,882	99,812	105,140
Excess (deficiency) of revenues over/(under) operating expenditures before transfers	875,670	171,302	2,290,918	207,219	811
Transfers to other funds:					
Mandatory transfers - Debt service	(53,619)	-	(33,379)	(52,509)	-
Nonmandatory transfers	(840,455)	(145,000)	(1,453,603)	-	-
Total transfers	(894,074)	(145,000)	(1,486,982)	(52,509)	-
Net increase (decrease) for the year	(18,404)	26,302	803,936	154,711	811
Fund balances (deficits) at beginning of year	317,727	165,807	295,215	231,091	(147,110)
Fund balances (deficits) at end of year	\$ 299,323	\$ 192,109	\$ 1,099,151	\$ 385,802	\$ (146,299)

Student Health Services	Student Unions and Recreational Facilities	Other Auxiliary Functions	Intercollegiate Athletics	Reserves	Total
\$ 425,090	\$ 975,111	\$ 711,399	\$ 1,661,671	\$ 918,852	\$ 15,175,545
14,735	9,060	680,359	236,704	-	1,710,313
-	-	326,796	-	-	326,796
-	15,593	-	-	-	21,417
439,825	999,764	1,718,554	1,898,375	918,852	17,234,071
226,163	406,434	772,145	593,626	-	2,770,033
57,148	85,000	171,758	129,031	-	645,052
61,960	214,050	585,216	299,539	-	5,048,459
20,384	67,190	131,886	195,149	-	493,359
7,341	265,597	49,694	21,294	-	846,176
78	15,794	57,728	58,649	-	480,377
-	82,608	376,430	399,580	-	1,325,453
85,221	260,359	363,605	369,955	-	2,528,052
-	2,257	16,009	2,802	-	27,500
458,295	1,399,289	2,524,471	2,069,625	-	14,164,460
(18,470)	(399,525)	(805,917)	(171,250)	918,852	3,069,610
-	516	(62,280)	-	(1,163,350)	(1,364,622)
-	(431,970)	1,323,306	(9,581)	331,572	(1,225,731)
-	(431,455)	1,261,026	(9,581)	(831,778)	(2,590,353)
(18,470)	(830,980)	455,109	(180,831)	87,074	479,257
246,085	276,616	(121,546)	(137,629)	3,495,831	4,622,087
\$ 227,615	\$ (554,364)	\$ 333,563	\$ (318,460)	\$ 3,582,905	\$ 5,101,345

VIRGINIA STATE UNIVERSITY
Petersburg, Virginia

BOARD OF VISITORS

As of June 30, 2000

Ronald C. Johnson, Rector

Elwood L. Bland, Vice Rector

Garland L. Bigley, Secretary

Mary P. Adams
Thomas W. Darby
Daun S. Hester
Adele Johnson

Glen N. Jones
Freeman McCullers
T.W. Taylor
Gary R. Thomson

ADMINISTRATIVE OFFICERS

Eddie N. Moore, Jr., President

Earl G. Yarborough, Sr., Provost and Vice President for Academic Affairs

Edward J. Mazur, Vice President for Administration and Finance

Claud Flythe, Chief of Staff and Vice President for Student Affairs